

Discussion/Information: Proposed Rate Methodology

May 24, 2004

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

Introduction

The establishment is a rate model that is fair, equitable and supports self-determination is a challenge faced by many support systems throughout the country. One model that has been developed uses standardized provider reimbursement rates.

Rate Setting Approach:

The following describes key aspects of the proposed rate model under consideration by the Division. Specifically, the following issues are discussed: Cost items associated with each component of the rate model; definition for agency and independent contract status, and; the rate structure for various services.

Rate Components: There are four cost centers that comprise the final rate for each service. The cost centers fall into four components:

1. Direct Support Staff Wage
2. Employment Related Expenditures
3. Program Related Expenditures
4. General and Administrative Expenditures

Information and data is collected and analyzed from a variety of sources with the final determination reflecting policy and budgetary directions. Specifically, these cost categories are derived in the following fashion:

Direct Support Staff Wage: Direct Support staff are defined to be those individuals whose primary responsibility is the day to day support of people with developmental disabilities, training and instruction, and assistance with and management of activities of daily living. Direct Support staff can be either employees of an agency, or may be self-employed, so long as 85% of their work activities include daily support to people with developmental disabilities.

Compensation and wage information comes from multiple sources. Provider Surveys are used to capture data specific to a state, reflecting the current range being paid for direct support salaries. This information is compared against national sources such as Hayes Compensation studies, US Bureau of Labor Statistics and Health and Hospital compensation studies. Comparable states are then identified. Comparable states are states that are similar in terms of size, demographics, program focus and other variables.

Typically the compensation analysis benchmarks salaries to four primary job classifications:

1. **Homemakers:** workers who primarily performed housekeeping, cooking and environmental cleaning duties for people with long term care needs

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

2. Personal care workers: workers who possessed high school degrees and were able to perform such duties as physical support/lifting, assistance with personal hygiene and activities of daily living, and transportation and mobility support
3. Habilitation workers: workers who possessed some advance training beyond high school and are skilled in teaching/training, behavior supports, administration of select health-related treatments and community inclusion including supported living
4. Vocational training worker: workers who are specially trained in supported employment to include job development and job coaching; education standards vary but often includes a bachelor degree

Services primarily offered to children would typically benchmark salaries to other professions such as:

1. Child care workers
2. Teacher aids
3. Special education teacher aids
4. Teachers
5. Special education teachers

Services primarily offered to children and adults with medical challenges would typically benchmark salaries to professions such as:

1. Home health aids
2. Certified nursing assistants
3. Therapy aids (OT, PT and Speech)
4. Licensed practical nurses
5. Registered nurses

The purposes of benchmarking are to achieve the following outcomes:

1. Set a salary for direct support wage
2. Identify other competitors and what salaries and benefits are offered
3. Retention

NOTE: Direct Support Wage is expressed as a dollar amount. This amount does not include overtime compensation or annual bonuses if awarded

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

Employment Related Expenditures(ERE) Employment related expenses refer to the benefits package that is offered to all employees who are involved in the support and services provided to persons with developmental disabilities. The cost center can be divided into categories:

Discretionary Costs-Costs associated with benefits provided at the discretion of the employer and are NOT mandated by local, State or Federal governments. Such benefits may include health insurance, profit sharing, retirement and educational leave

Non-Discretionary Costs-Costs that are related to employment expenditures and they are mandated by local, State and Federal government and are not optional to the employer. Such expenditures include FICA, FUTA, SUTA and workers' compensation insurance. Employee-related costs vary for people who are self-employed and agency employees.

Source information comes from provider surveys and current Federal and State tax requirements, workers' compensation history and cost of health insurance. As with each component after the information and data is collected and analyzed from a variety of sources the final determination is made reflecting policy and budgetary directions and limitations.

A typical Discretionary and Non-Discretionary breakdown follows: Percents are hypothetical

Non-Discretionary		Discretionary	
Coverage	Percent (%) of payroll	Coverage	Percent (%) of payroll
Federal Required Payroll Taxes		Health Care	6.1%
-Social Security	6.2%	Long-term disability	0.1%
-Medicare	1.45%	Medical Related	6.3%
-FUTA	4.83%	Time not worked	6.4%
-SUTA	1.37%	Life	0.1%
		Retirement	3.0%
Workers Compensation	6.2%	Child care/misc	0.1%

NOTE: ERE is expressed as a percent.

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

Program Related Expenditures: These expenditures are those that are part of the operation of the setting from which the supports flow but are not directly tied to the direct support staff. Such settings can include residential and day support centers or community locations associated with supported living and supported employment. Expenditures can include:

1. Program support services such as staff trainers and clinical supervisors
2. Supervisors of direct support staff
3. QMRPs
4. Program related supplies
5. Social services involving family counseling, estate and guardianship support
6. Evening activities including recreation and community-inclusion activities
7. Documentation requirements

The primary source of information and data comes from provider surveys. The information and data from the surveys are validated through the selection of a sample and concomitant detailed interviews with program administrators and business office personnel. As with each component after the information and data is collected and analyzed from surveys and interviews the final determination is made reflecting policy and budgetary directions and limitations.

NOTE: Program Related is expressed as a percent.

General and Administrative Expenditures (G&A): G&A costs are those associated with operating the organization's business and administration and are not directly related to services or the programs that support people with developmental disabilities. Typical costs include:

1. Administrative salaries to include the agency director and secretarial support
2. Professional services to include the management of payroll and account receivable
3. Liability insurance
4. Travel and when allowed entertainment expenses
5. Office expenses
6. Program development and fund raising
7. Occupational and Health safety costs
8. Depreciation and amortization on capital assets
9. Interest on capital debt
10. Real estate taxes
11. Property insurance

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

12. Equipment and miscellaneous cost

G&A levels are set as a percentage usually aligned with state policy on acceptable caps for administrative supports. Information and data from the provider surveys and interviews is essential to ensure that the upper limit set by policy is reasonable.

A sample:

COMPONENT	Supported Employment	Vocational Services	Day Programs
DS WAGE	\$12.89	\$9.10	\$8.29
ERE	31.47%	31.47%	31.47%
SUBTOTAL	\$16.95	\$11.96	\$10.90
PROGRAM RELATED	26.7%	8.9%	10.8%
SUBTOTAL	\$23.13	\$13.13	\$12.22
GENERAL & ADMIN	14.4%	15.1%	11.0%
BASE HOURLY RATE	\$27.02	\$15.47	\$13.73

An example by specific services:

Individual Direct Support Wage Residential Services

<u>Base Wage</u>		<u>\$9.17</u>
<u>Employment Related</u>	<u>29.0%</u>	<u>\$11.83</u>
<u>Program Related</u>	<u>16.0%</u>	<u>\$13.30</u>
<u>General / Administrative</u>	<u>7.0%</u>	<u>\$14.30</u>

Individual Direct Support Wage Job Coach/SE

<u>Base Wage</u>		<u>\$9.17</u>
<u>Employment Related</u>	<u>29.0%</u>	<u>\$11.83</u>
<u>Program Related</u>	<u>16.0%</u>	<u>\$13.30</u>
<u>General / Administrative</u>	<u>12.0%</u>	<u>\$15.11</u>

Individual Direct Support Wage Community Guide

<u>Base Wage</u>		<u>\$9.17</u>
<u>Employment Related</u>	<u>29.0%</u>	<u>\$11.83</u>
<u>Program Related</u>	<u>17.0%</u>	<u>\$13.39</u>

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

General / Administrative	10.0%	\$14.88
---------------------------------	--------------	----------------

The question of whether there are different cost profiles tied to geographic factors can be determined through the provider surveys and interviews. Specifically the cost drivers that should be reviewed include:

1. Wages and compensation practices
2. Housing and lease costs
3. Uninsured workers
4. Crime statistics
5. Cost of living indices
6. “Windshield” time

Applying the Model to Residential Habilitation

RESIDENTIAL HABILITATION RATES: Residential habilitation rates are constructed using a matrix which calculates the amount of reimbursement based upon the number of people served and the amount of service which they receive. All daily rates for residential habilitation in congregate settings are standardized and published. A facility’s reimbursement rate is defined from a schedule of fixed rates, which are constructed using four cost components: direct care salaries, employee-related expenses, program-related costs, and general and administrative costs. The schedule of rates is expressed using the number of people to be served and the amount of direct care staff hours (awake staff only) provided in a typical 24-hour day. The selection of the appropriate rate is the process of determining the amount and level of required awake direct care staff support provided in a typical day and then dividing that amount by the number of people served in a specific residential setting. The following worksheet illustrates how the rate schedule is used.

Work Sheet for Calculating Residential Habilitation Daily Rate Per Person

Number of Direct Care staff hours / awake	Total	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Sun.
AM staff hours								
PM staff hours								
Night staff hours								
Sub-total hours / day								
Total staff hours per week								
Average daily awake staff hours (divide total days by 7 days)								
Number of People residing at the home	Total	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Sun.
Number of people / day								
Average daily people (divide total by 7 days)								
Calculate Daily Rate Per Person								
Divide average daily awake staff hours by average daily people								
Apply average staff hour/person to rate								

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

Determining the Rate: There are four key steps in determining the daily rate per person in a residential habilitation utilizing the same logic that is used as for hourly services but adjusting for economy of scale:

1. STEP #1-Determine how many people are living in the residential habilitation setting: this factor is determined by reviewing the census of a typical week and identifying the number of clients who are residents of the home.
2. STEP #2-Determine how many direct support staff hours (awake staff) are provided in the residential setting: this factor also determined by reviewing the staff schedules for a typical week, and dividing the total by seven days to obtain the average daily direct care awake staff hours.
3. STEP #3-Divide the average daily awake staff hours by the number of clients in the home (Step #2 divided by Step #1). That will provide the Number of Direct Care Awake Staff Hours per 24-Hour Day per Person.
4. STEP #4-Find the number on the left column of the Residential Habilitation schedule which corresponds to the Per Person average and then, reading across the corresponding row, determine which geographical, programmatic, and economies of scale apply.

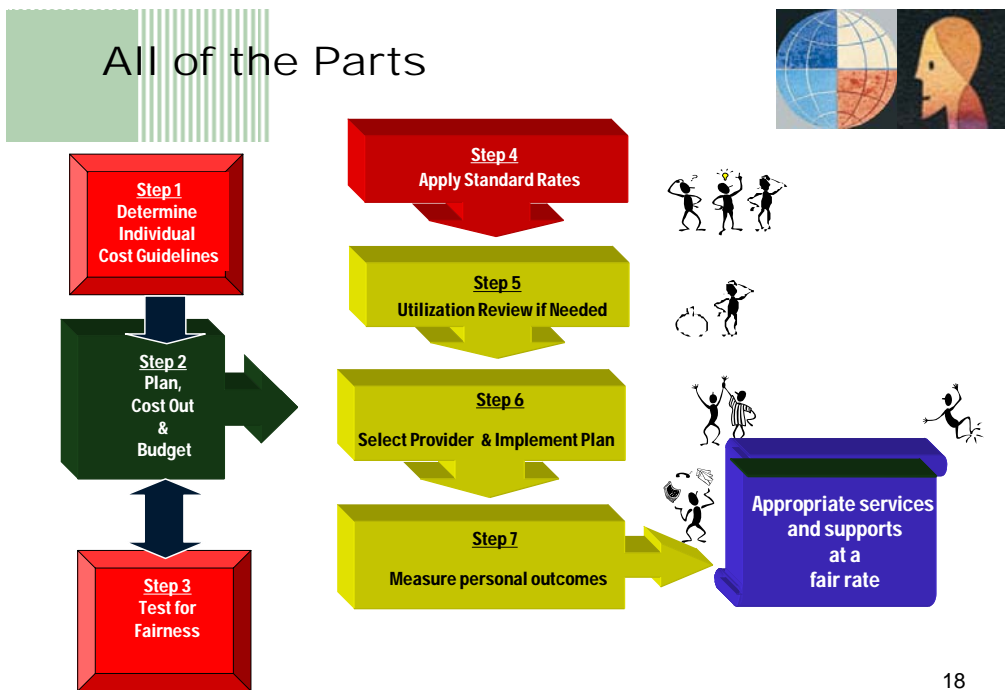
Authorization of the Rate: Once the appropriate level of staffing has been determined from the individual service plan (either for one person or for a group of people), and the rate has been selected from the schedule of published rates, a plan of support must be established for the rate to be considered in effect. A representative of the State must authorize the rate determined from the schedule as appropriate for the individual, and establish the dates for each authorization

Test for Reasonableness:

Individual Cost Plan: Each person receives an individual support plan in which the needs and objectives of service for the individual are articulated, and the services are coordinated. The support plan is person-centered and expresses individual interest and need. This plan is then converted into an Individual Cost Plan which identifies the amount of hours of service needed for all HCBS service categories; the cost plan should be expressed as the number of hours of direct staff contact. It is this Individual Cost Plan which serves as the basis for determining the costs of all support. Final approval and acceptance of the individual cost plan rests with the State.

.

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.



Data Source: DEVELOPMENTAL DISABILITIES PROVIDER DATA

Current State Data

- Provider Cost Reports
- Audited Financials
- BDS Claims Data
- Medicaid Claims & 372 Data
- BDS Procurement & Management Data
 - Monthly monitoring
 - Budget Expenditures
 - MIS data

External Data

- Market Analysis
- Compensation
- Best Practices

Survey Data

- How does geography influence costs?
 - transportation benchmarks – delivery method, miles, # of people, special equipment/circumstances, shared services / shared revenue sources

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

- geography – costs & cost center relationship, staff patterns, housing access
- How does staff availability and turnover influence costs?
 - direct care staff survey
 - current compensation
 - staff schedules, payroll documents
- How much do quality services cost?
 - waiting list management
 - individual need versus resource available
- What is the relationship among cost centers?
 - cost survey - % of BDS Business
 - cost survey & telephone follow-up - validate BDS data & define accounting identities and verify

Test Budget Impact:

Can the new model be afforded? The model places an importance on the management of service levels. For each service a determination is made on how many “units”, billable activities are anticipated. The number of units is then multiplied by the fixed or published rate and the budget impact for each service is identified.

If there is a budgetary problem, two options exist. Either the number of billable units is reduced or the rate is reduced to achieve budget neutrality. This approach offers the ability of being selective and through policy decisions place incentives to promote service mitragration.

Units	Rate	Budget Impact
	\$18.18	\$0.00
	\$16.26	\$0.00
	\$16.05	\$0.00
	\$16.26	\$0.00
	\$16.05	\$0.00
	\$16.26	\$0.00
	\$14.30	\$0.00
	\$14.49	\$0.00
	\$15.11	\$0.00
	\$18.10	\$0.00
	\$14.88	\$0.00
	\$14.88	\$0.00
Budget Impact		\$0.00

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

Impact Providers:

The impact on any change in reimbursement methodology must include an impact analysis on the network of providers offering support services. The following grid is derived from a spreadsheet used to determine the fiscal impact on service providers.

New Rate Impact on SFY 04 Contract		
Projected SFY 04 Contract with New Rates	Diff	Percent Change
		0%
		0%
	-	
		0%
		0%
		0%
		0%
	-	
		0%
		0%
		0%
		0%
	-	

There are several provisions that are available to address the

Standard Definitions:

The model depends upon the development of standard service definitions. For example:

Standard Definition: Residential		
Residential Service; Assumes 365 days per year 1 to 24 hours per day	Characteristics	Direct Support Staff
Family Home	Living with a family member	Wrap around support to the person and the family
Supported Living	With or without a roommate; no license	“As needed” model; wrap around supports
Group Home	Licensed setting with 3 or more roommates	Typically shift schedule

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.

Standard Definition: Vocational and Day Support		
Day Support Service; Assumes 260 days per year 1 to 8 hours per day	Characteristics	Direct Support Staff
Community Inclusion	Community-based services typically alone or with up to 2 others	Wrap around support to the person and friends
Facility-based	Center-based services and can include sheltered workshop	Typically shift schedule
Supported employment	Community-based employment	Varied and flexible hours

Outstanding Issues:

There are several other issues critical to finalizing any new rate model. These include:

1. Transportation costs, specifically
 - a. Separate and free standing
 - b. Integrated into the cost for residential services
 - c. Integrated into the cost for day support
 - d. Integrated into the cost for supported living
 - e. Integrated into the cost for supported employment
2. Capitation rates rather than hourly for certain services;
 - a. Supported Living
 - b. Supported Employment
 - c. Transportation

Note: This discussion paper is for illustration purposes only; the numbers and rates contained herein do not reflect those under consideration by the Department.